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U.S. House of Representatives
Committee on Resources
Washington, DC 20515

July 13, 2005

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The Honorable Joe Barton
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman,

Late last month, the House passed H. Res. 344, expressing the sense of the House that the proposed takeover of Unocal Corporation by the Chinese state-owned China National Offshore Oil Corporation could lead to actions that "would threaten to impair the national security of the United States." The resolution also called on President Bush to review thoroughly the national security implications of the transaction.

I am writing to encourage you to consider including provisions in the energy bill conference report that would ensure a complete understanding of the implications of China's growing energy requirements on the national security, energy security and economic future of the United States before the government could approve a takeover of Unocal by CNOOC.

Our resolution, which passed the House by an overwhelming bipartisan majority, detailed many of the national security implications of Chinese ownership of strategic energy resources. For example, if China were to control Unocal, it would control approximately one-third of all global excess oil productive capacity.

Additional concerns have been raised about the potential of dual-use technology transfer implicit in the sale, and I have recently become aware that Unocal was the last remaining U.S. producer of oil shale in the Western United States, and may therefore own important technologies which could be used to access this promising resource. As you may know, the U.S. has an oil shale resource within our own borders in excess of 2 trillion barrels, and important technologies that

might access oil shale reserves may ultimately hold the key to North American Energy Independence.

As I have mentioned before, I do not fault the Chinese for recognizing the inextricable bond between economic prosperity and energy consumption. The Chinese are acting in their own self-interest to continue and sustain their economic growth, by recognizing that energy is instrumental to their future position in the world. In fact, I am encouraged that CNOOC's proposal to purchase Unocal may have awakened in Congress a new appreciation of the relationship between energy and economic and overall national growth. I was therefore pleased to have been joined in my efforts to ask President Bush to review the economic and national security implications of the sale of Unocal's asset base of 1.7 billion barrels of oil equivalent by many of our colleagues who have previously refused to support access for the 10.4 billion barrels or more of oil which experts have suggested are available to U.S. consumers in a small portion of the Arctic National Wildlife Refuge (ANWR).

Indeed, it is refreshing to see that Members of Congress are beginning to wake up to the reality that U.S. energy producing companies are the strategic assets that you and I have recognized for a long time. Their wealth and job and national security-producing energy are essential to a growing economy and a higher standard of living for ourselves and our children. A nation that does not or cannot produce energy for its people is a nation which has not abided by its responsibilities to its people. The CNOOC proposal to purchase Unocal may therefore prove to be the "Sputnik" of our time for a Congress which at times has seemed oblivious to the true relationship between energy and national strength.

It is critically important that the Administration and the Congress have a complete understanding of the strategic, national security, economic security, and defense ramifications of China's growing demand for energy resources, including the implications of a Chinese state-owned company buying Unocal. We must assess these matters now, rather than after CNOOC has acquired Unocal.

I therefore urge you to include an Amendment, a draft of which I have attached, to the Conference Report for the Energy Policy Act of 2005 (H.R. 6), that would require an evaluation of a number of issues before the Administration could commence a national security review of the proposed CNOOC acquisition of Unocal. The Secretary of Energy would be required to prepare a Report, which could be confidential, to be submitted to both the President and the Congress within 180 days. The Amendment would require the Secretary of Energy, in conjunction with the Secretaries of Defense and Homeland Security, to undertake an evaluation of the following:

- An assessment of the type, nationality, and location of energy assets that have been sought for investment by companies in the People's Republic of China.
- An assessment of the extent to which China's investment in energy assets has been on market-based terms, free from government subsidies.
- An assessment of the effect of such investment on the United States' control of dual-use and export controlled technologies.

- An assessment of the relationship between the People's Republic of China and energy related businesses such as CNOOC.
- An examination of the United States' energy policy and foreign policy as it relates to ensuring a competitive global energy market.
- An examination of the relationship between the United States and the People's Republic of China as it relates to pursuing energy interests in a manner that avoids conflicts.

The United States economic and national security depends on access to stable, reliable, predictable, and affordable energy supplies. You have been a strong champion of sound and effective energy policies for the United States, and I look forward to working with you to include this and other important matters in the H.R. 6 conference report.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard W. Pombo". The signature is fluid and cursive, with the first name "Richard" being more prominent than the last name "Pombo".

RICHARD W. POMBO
Chairman

Description of Proposed Amendment to the Energy Policy Act of 2005

The proposed CNOOC acquisition of Unocal raises many novel national security, energy and economic issues. This amendment requires the Secretary of Energy, in consultation with the Secretaries of Defense and Homeland Security, to analyze and present a report to the President and the Congress on a variety of issues before the Administration proceeds with a review of the proposed transaction. The Report to the President and Congress, which could be confidential, must be submitted within 180 days. Once the Report has been completed, the Administration could proceed with the regulatory review of the proposed transaction. The Amendment requires the Secretary of Energy, in conjunction with the Secretaries of Defense and Homeland Security, to undertake an evaluation and provide a Report on the following:

- An assessment of the type, nationality, and location of energy assets that have been sought for investment by companies in the People's Republic of China.
- An assessment of the extent to which China's investment in energy assets has been on market-based terms, free from government subsidies.
- An assessment of the effect of such investment on the United States' control of dual-use and export controlled technologies, including the impacts on current and future access to foreign and domestic sources of rare earth elements used to produce such technologies
- An assessment of the relationship between the People's Republic of China and energy related businesses such as CNOOC.
- An assessment of the impact on the world energy market of the common practice of entities located in the People's Republic of China of removing the energy assets owned or controlled by such entities from the competitive market, with emphasis on the effect if such practice expands along with the growth in energy consumption of the People's Republic of China
- An examination of the United States' energy policy and foreign policy as it relates to ensuring a competitive global energy market.
- An examination of the relationship between the United States and the People's Republic of China as it relates to pursuing energy interests in a manner that avoids conflicts.

These issues are sufficiently important that the Administration and Congress should have adequate time to consider the implications of the proposed transaction on the United States' national security and energy security interests.